**COUNTY OF LOS ANGELES**
**DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
AUDITOR-CONTROLLER

June 10, 2013

TO: Philip L. Browning, Director
Department of Children and Family Services

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **REVIEW OF TEEN'S HAPPY HOMES, INC. JUNE 3, 2013 RESPONSE**

On June 3, 2013, Teen's Happy Homes, Inc. (Teen's), a Foster Family Agency and Group Home (FFA/GH) foster care contractor with the Department of Children and Family Services (DCFS), through their attorney, Law Offices of Willoughby & Associates, submitted a letter to the Board, along with Teen's response to the Auditor-Controller's (A-C) May 17, 2013 Fiscal Review and Review of Fiscal and Management Allegations, which the A-C identified a total of $107,369 in disallowed/questioned costs, and substantiated or partially substantiated eight allegations.

## Review Summary

We have reviewed the response and supporting documents submitted by Teen's, and determined that there is nothing in Teen's response that justifies any changes to the results of our May 17, 2013 fiscal review. The following are examples of Teen's response and our analysis of their response. Please note that, because Teen's provide multiple justifications for their response, we have replied to each justification.

## Vehicle Costs

Teen's claimed that we should not have disallowed $23,032 in payments for a car used by the Executive Director (ED) because: 1) Teen's paid for the car to repay loans from the ED; 2) The car is not the ED's personal car, but is used "almost exclusively" for Agency business; 3) The A-C cannot disallow the costs just because Teen's does not have mileage records; 4) Federal rules allow employees to be reimbursed for mileage; and 5) The State requires employers to reimburse employees for costs incurred in their job.

**A-C analysis** – 1) As noted in our May 17, 2013 report, Teen's did not have documentation that the ED had loaned money to the Agency, or that the Agency's Board of Directors (Board) had approved the loan or repayment; 2) The Agency had no mileage logs showing the business use of the vehicle. In addition, on several occasions during our review, the ED admitted that the vehicle was her personal vehicle; 3) The A-C Contract Handbook requires agencies to maintain vehicle logs to document business usage; and 4) We agree that federal and State rules allow/require employees to be reimbursed for driving for Agency business. However, Teen's had no mileage logs to support the reimbursement to the ED.

**Questioned Wages**

Teen's response claims we should not have questioned $68,769 in inadequately supported wages; $49,569 to the Operations Manager (OM), and $19,200 to another individual because Teen's took care of all County-placed children. Therefore, all Teen's employees discharged their duties. Disallowing the OM's salary was "offensive and uncompassionate". Teen's Board approved paying the OM's salary while she was out ill, a benefit that would have been available to any Teen's employee. The employee continued to perform light duties.

With regard to the other employee, Teen's claimed they are not required to provide any work product for its employees, and the auditors were given the employee's time and attendance records. The employee serves as back-up for the ED, performs quality assurance, and serves as a general consultant to Teen's.

**A-C analysis** – As noted in our May 17, 2013 report, the OM was paid her full salary when she told us she was unable to work normal business hours, at the same time her timecards indicated she worked 9 a.m. to 5 p.m. In addition, our review of Agency records disclosed minimal work activity for the OM. Finally, Teen's employee handbook does not provide for full salary for an employee on sick leave.

For the other employee, this individual was paid as a Teen's GH employee. However, the GH Administrator during this period did not have any knowledge of the work this individual did for Teen's. Teen's did not provide any signed/approved documents that supported this individual as the ED's back up, or reports/emails or other documentation related to her quality assurance duties. Teen's response only provided an outdated training manual from this individual's personal consulting firm, and a personnel file that appeared to be from a different agency.

In summary, Teen's response does not provide any information or documentation that would justify any changes to the results of our fiscal or allegation reviews. Attachment I is our detailed analysis of Teen's response to these findings and the other results of our review.

As noted in our May 17, 2013 report, because of the serious findings and numerous allegations, we issued our report before the Agency's appeal period. The Agency has the right to appeal the results of our fiscal review to DCFS and/or the State.

Please call me if you have any questions.

WLW:JLS

Attachment

c: Each Board of Supervisor
William T Fujioka, Chief Executive Officer
John F. Krattli, County Counsel
Jerry E. Powers, Chief Probation Officer
Reaver E. Bingham, Deputy Chief, Probation Department
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Teen's Happy Homes, Inc.
Law Offices of Willoughby & Associates
Commission for Children and Families
Audit Committee

## Review of Teen's Happy Homes, Inc., June 3, 2013 Response
## Detailed Analysis

### Audit Resolution

Normally, when we issue a final draft FFA/GH audit report, DCFS issues a Notice of Action, which starts the clock on the agency's appeal rights. The agency has 30 days to request a hearing with the Department of Children and Family Services (DCFS), and 90 days to request a Fair Hearing from the State. These hearings are the agency's opportunity to question our findings.

As you know, we issued Teen's before the Agency could appeal. The report includes the following language from County Counsel.

> **The findings and conclusions in this audit are subject to further review, and possible revision, based on Teen's pursuit of its regulatory due process rights to challenge the audit findings under applicable law. The Agency will provide their response to DCFS who will prepare a Fiscal Corrective Action Plan, and submit it directly to your Board.**

Assuming Teens appeals to DCFS, DCFS would have to decide if they accept Teen's explanations for the questioned costs. Teens could also appeal to the State.

### I. UNALLOWABLE COSTS OF $27,623

#### A. $23,032 of payments for the Executive Director's personal car, car insurance, and a satellite radio

**Finding:** We disallowed $23,032 of payments for the Executive Director's (ED) personal car, car insurance, and a satellite radio.

**Agency Response:** Teen's claims we cannot disallow the costs because the funds for the vehicle did not come from DCFS. Teen's claims the $13,845 down payment the Agency made on the car was to repay loans from the ED. This would include a statement from a Church that the ED paid rent on behalf of the Agency.

**A-C Response (1):** Teen's gave us copies of $14,000 in cashier's checks that were deposited into the Agency's bank account in October 2004 and March 2007, they claim were loans from the ED. However, they did not provide documentation that the cashier's checks came from the ED, or that Teen's Board had approved a loan from the ED, or a repayment agreement to pay the money back.

Because there was no proof the $14,000 came from the ED, and there was no loan or repayment agreement, we disallowed the cost.

Exhibit F in Teen's response is a November 9, 2007 memo from a representative from WARD AME Church saying he received $3,000 from Beutina Robinson on April 11, 2006 for rent, and two other payments of $1,500 each for November and December of 2006. There was no proof the funds came from the ED, or documentation that the payments were related to Teen's operations. Also, there is no written loan agreement establishing that Teen's would pay back those funds.

**Agency Response (2):** The vehicle is not for the personal use of the ED, but is used almost exclusively for Teen's business. The auditors disallowed the cost due to a lack of travel logs, but Teen's claims they provided other information, such as the ED's duties; receipts from shopping trips by the ED; observations; etc. The auditors have no evidence that the vehicle was not used in Teens related activities.

**A-C Response (2):** On several occasions during our review, the ED admitted that the vehicle was her personal vehicle. In addition, the Agency's independent auditor (Oscar H. Gamez) indicated that the vehicle was not listed as an asset on Teen's financial statements because the vehicle is the ED's personal vehicle, and therefore should not be listed.

Teen's group home (GH) has a dedicated vehicle (Ford Windstar) that is used to transport kids to and from school, appointments, etc., and is also used to purchase groceries for the GH. The vehicle is housed at the GH. While the FFA did not have a dedicated vehicle, Teen's policies require employees to have their own vehicle, and be reimbursed for business mileage.

Federal regulations indicate that the cost of personal use of a vehicle is not allowed. The ED did not maintain mileage logs documenting when the vehicle was used for Agency-related business.

**Agency Response(3):** Federal rules do not require mileage logs, if the cost is reasonable, ordinary, and necessary given the nature of the required duties of the ED.

Teen's reimbursed other employees for mileage, but the auditor is refusing to reimburse the ED. How can she fulfill her responsibilities without a safe and operational vehicle if summoned by DCFS to take custody of a child in the middle of the night?

**A-C Response (3):** We are not denying her reimbursement for miles driven, but without records of business miles, we cannot pay for the car. In May 2013, Teens did create some mileage logs (years after the dates of travel). Using those logs, the ED would have been reimbursed $543 for miles driven for 16 months in 2009 and 2010. This is significantly less ($22,489 less) than the $23,032 in personal vehicle expense identified in our review.

**Agency Response (4):** OMB Circular A-122 Attachment B 51 allows reimbursement for local travel on a per diem basis. Reimbursement to the ED for the cost of the vehicle is specifically permitted by A-122 which states: "...expenses for transportation...incurred by employees...who are on official business of the non-profit organization...may be charged on a per diem or mileage basis..."

**A-C Response (4):** The regulation cited by Teen's provides for employees to be reimbursed for travel cost incurred on a per diem or mileage basis, provided the method used results in charges consistent to those normally allowed in like circumstances. As indicated above, Teen's policies provide for mileage reimbursement to all employees. Teen's did not consistently apply its policies to all employees in the organization. Teen's paid other employees on a mileage basis, but paid the ED's vehicle expenses. In addition, federal regulations indicate that the cost of personal use of a vehicle is not allowed. The ED did not maintain mileage logs documenting when her vehicle was used for Agency-related business.

**Agency Reponse (5):** California Labor Code requires employers to indemnify employees for expenses incurred in direct consequence of their duties. California Labor Code Section 2802(a) and Title 8 of the California Code of Regulations require employers to reimburse employees for the cost of operating a vehicle. Further the California Supreme Court has determined that a method of reimbursement can be based on a lump-sum payment method. (Gattuso v. Harte-Hanks Shoppers, Inc.) (Exhibit H).

By disallowing the required vehicle reimbursements to the ED, the auditors want Teen's to violate State laws/regulations, and Teen's Board of Directors (Board) respectfully objects.

**A-C Response (5):** While the California Code cited by Teen's appears to require employers to reimburse employees for expenses incurred to perform their job, including travel expenses, the Auditor-Controller's Contract Accounting and Administration Handbook (A-C Handbook) also requires agencies to keep daily mileage records, and maintain these records for five years. In addition, Teen's policy is to pay employees mileage reimbursement as indicated in their company handbook.

**B. $1,500 in vehicle allowance payments to the ED which were in addition to the car payments.**

**Finding:** We disallowed $1,500 in vehicle allowance payments to the ED, which were in addition to the car payments discussed earlier.

**Agency Reponse (1):** The ED was entitled to be reimbursed for the use of her personal vehicle because Teen's Board had approved a $500 monthly car allowance in January 2003 for the ED for the use of her personal vehicle for Agency business. However, during January through March 2009, the ED was not paid the monthly allowance and was therefore owed $37,500. When Teen's assumed the monthly payments of the Toyota, the ED did not get any further auto allowances.

**A-C Response (1):** The ED's personal vehicle allowance is prohibited by federal regulation. The federal regulation disallows the cost of personal use of vehicles as a fringe benefit, regardless of whether the cost is reported as taxable income to the employee. As previously noted, Teen's did not maintain records to establish the business use of this vehicle.

**Agency Reponse (2):** California Labor Code requires employers to indemnify employees for expenses incurred in direct consequence of their duties. California Labor Code Section 2802(a) and Title 8 of the California Code of Regulations require employers to reimburse employees for the cost of operating a vehicle. Further the California Supreme Court has determined that a method of reimbursement can be based on a lump-sum payment method. (Gattuso v. Harte-Hanks Shoppers, Inc.) (Exhibit H).

By disallowing the required vehicle reimbursements to the ED, the auditors want Teen's to violate State laws/regulations, and Teen's Board respectfully objects.

The $1,500 in questioned vehicle allowances were paid to the ED in consideration of the $37,500 of auto allowances that were owed to her as of December 31, 2009, and should therefore not be a disallowed cost.

**A-C Response (2):** As noted earlier, while the California Code cited by Teen's appears to require employers to reimburse employees for expenses incurred to perform their job, including travel expenses, the A-C Handbook requires agencies to keep daily mileage records, and maintain these records for five years. In addition, Teen's policy is to pay employees mileage reimbursement as indicated in their company handbook.

In addition, the ED's personal vehicle allowance is prohibited by federal regulation. Therefore, foster care funds should not be used to pay the vehicle allowance, and the $37,500 of auto allowances that were owed to her as of December 31, 2009.

**C. $2,466 in credit card expenditures for the Executive Director's personal and non-FFA/GH related travel.**

**Finding:** We disallowed $2,466 in credit card expenditures for the ED's personal and non-FFA/GH-related travel. Only costs that are related to FFA/GH Programs are allowable.

**Agency Response:** $1,302 in charges for a trip to Arkansas was reimbursed to Teen's on June 6, 2011. The costs were related to a federal Mentorship Program. The Mentorship Program has subsequently reimbursed Teen's. (Exhibit J)

The remaining $1,164 is for travel by the ED that has not been adequately investigated and documented, but Teen's believes that the expenses were related to travel for allowable conferences.

**A-C Response:** We confirmed the Agency deposited $1,302 into the FFA Bank account on June 6, 2011 for the non-Program related travel expenditures incurred in 2009. However, Teen's did not provide documentation to substantiate the source of the funds used to reimburse the Program. In addition, since documentation was not provided to support that the remaining $1,164 was Program-related travel, we disallowed those expenditures. It should be noted that we discussed the unsupported travel expenditures with the Agency in November 2010. To date, they have been unable to provide any documentation to support the $1,164 in travel was Program related.

**D. $625 in penalties and interest payments.**

**Finding**: We disallowed $625 in penalties and interest payments.

**Agency Response (1 and 2):** Teen's knows that federal regulations prohibit the payment of fines and penalties with federal grant funds, but says that these types of costs are unavoidable for any entity conducting business. In addition, they indicate that the fines were paid with $2,051 in unrestricted donations Teen's received in 2009. (Exhibit L)

**A-C Response:** Teen's 2009 audited financial statements disclose $1,000, not $2,051, in donations. In addition, Exhibit L is a copy of a bank statement that does not support receipt of $2,051 in unrestricted donated funds. Furthermore, Teen's operates another non-County Program that donations, if received, can also utilize. Finally, no documentation was provided to support that donated funds, if available, were used to pay the fines and penalties.

## II. UNSUPPORTED/INADEQUATELY SUPPORTED COSTS

**A. $68,769 in inadequately supported wages.**

**Finding:** We questioned $68,769 in inadequately supported wages to two individuals: One employee was paid $49,569 while she was out for medical reasons. The other individual was paid $19,200, and her employment at the Agency was questionable.

**Agency Response (1 and 2):** Federal cost principles specifically allow the payment of the subject wages to the employees. For the employee who received $49,569 in wages as the Operations Manager (OM), Teen's Board approved an extended medical benefit to allow the employee to continue to work, performing some tasks from home. Teen's does not believe there is anything improper about the authorization of this benefit, which given the nature of the disability, would have been available to any employee of Teen's.

Teen's admits that the employee did often take time-off for treatment but, for the most part, was present at the Agency performing light tasks that would not further debilitate her.

For the individual who received $19,200 in wages, Teen's claims the employee functioned as a backup to the ED; performed quality assurance; and served as a general consultant to Teen's. Teen's indicated that that they do not know of any employment law requiring employees to periodically produce work product accomplishments for their employers, and they therefore have none to present to the auditors.

Teen's performed all units of service provided to the children under their care. All employees at Teen's performed their duties and responsibilities to accomplish this, including the OM and assistant to the ED. Maintaining work product for these individuals is burdensome and unreasonable. The auditors have been presented with the required properly approved time sheets documenting wages paid to these employees.

**A-C Response: Operations Manager ($49,569 in questioned costs) -** We did not dispute the authorization by Teen's Board to allow the OM to work from home. However, it is unlikely the employee would have been able to perform a significant portion of her job responsibilities from home, since her job description requires her to address day-to-day facility operations. For example, the employee was responsible for managing the reception desk, which would require her to supervise staff and approve timesheets, maintain inventory, and acquire supplies. Employees interviewed stated this was handled by another individual prior to September 2009.

In addition, staff interviews and other evidence only document work the OM performed after July 2009, and that she was present at the facility beginning in September 2009. We question the employee's overall lack of work product during June 2008 to June 2009, which would have been reasonable based on her duties as OM. Furthermore, the employee's timesheets indicated she generally worked between 9 a.m. and 5 p.m., which is inconsistent with the employee's statements that she was unable to work during normal business hours. The Agency indicated that they were not aware that the OM had to report actual time at work on her timesheet, since she is a salary employee. As a result, it is evident that the timesheets cannot be relied on.

Finally, Teen's employee handbook does not indicate that employees can be paid their full salary while on extended sick leave.

**Assistant/back-up to the ED ($19,200 in questioned costs)** – Teen's payroll records indicate this individual was paid as a GH employee. However, the GH Administrator during this period did not have any knowledge of the work this individual did for Teen's. Teen's is now indicating this person served as a back-up to the ED, performed quality assurance, and served as a general consultant. It appears reasonable that, as a back-up to the ED, Teen's would have documents that this individual signed/approved when the ED was unavailable, or reports/emails or other documentation related to her quality assurance duties. Teen's was given numerous opportunities to provide evidence of work product from this individual, and only provided an outdated training manual from this individual's personal consulting firm. In addition, the Agency provided personnel records for this individual from another agency, with forms that showed they were signed in 2001, when the forms were actually created in 2010. Teen's also did not submit any timesheets for this individual.

Because of lack of work product for these individuals, accurate timesheets, and other questionable practices, we questioned the wages paid to these individuals.

**B. $4,010 in inadequately supported payments to independent contractors.**

**Finding:** We questioned $4,010 in inadequately supported payments to independent contractors. The Agency paid one vendor, a former foster child, $2,700 for janitorial services while the person was going to school in another state. The Agency did not have invoices or other supporting documentation for the remaining $1,310 ($850 for clerical services + $460 for other handymen expenses) to establish the expenditures were FFA/GH-related.

**Agency Response (1):** Teen's has provided proof to the auditors that a substantial portion of the $2,700 paid to the former foster child for janitorial services has been repaid.

**A-C Response (1):** Teen's provided a cashier's check for $1,200 purchased December 2012 by the ED. Teen's claims funds recovered from the former foster child were used to purchase the cashier's check. However, we were unable to verify the source of the funds used to purchase the cashier's check. As a result, we questioned all payments to the former foster child.

**Agency Response (2):** Teen's provided proof that the payment for $850 in clerical services was properly approved.

**A-C Response (2):** The Agency paid the vendor in November 2009, but provided an invoice from December 2010 to support the payment. Although the approval form and the invoice provided referenced the same check number and date of payment, we question the legitimacy of the documents since it is unlikely a payment for services would have been made over a year before the services were rendered. In addition, an approval form is not sufficient to substantiate that a payment is Program related, as indicated in the A-C Handbook. Furthermore, our review of Teen's disbursement approval process noted that 47 (59%) of 80 expenditures were not properly approved for payment because the preparers and Administrator's signatures were sometimes photocopied, and not original, or the ED's approval signature was from a rubber stamp kept by the bookkeeper.

**Agency Response (3)**: The auditors have not concluded with irrefutable certainty that the subject costs were unallowable according to applicable federal regulation, but have instead opined that they are inadequately supported.

**A-C Response (3):** Teen's contract with the County requires Teen's to comply with all applicable regulations, including the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay all disallowed costs.

**Agency Response (4):** The disallowed costs consist mainly of janitorial, clerical, and handyman labor which are routine expenditures generally incurred by the Agency. Federal cost principles contained in OMB A-122 state "to be allowable...cost must...be reasonable for the performance of the award..."

**A-C Response (4):** Teen's did not maintain adequate documentation to support the $4,010 in questioned expenditures as required by the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay for all disallowed costs.

**C. $2,313 in inadequately supported cell phone charges**

**Finding:** We questioned $2,313 in inadequately supported cell phone charges. Teen's did not provide documentation that the charges were related to the County foster care program. In addition, some of the charges appeared to be unreasonable and unnecessary, including three separate cell phones assigned to the ED, and out-of-State calls on an Agency cell phone, where the Agency did not document the business purpose of the calls. The Agency also paid two employees' personal cell phone bills in full, without determining the percentage of business calls.

**Agency Response (1 and 2):** Teen's claims that the assignment of cell phones to employees are reasonable and necessary for the safe conduct of their duties. Of the three cell phones assigned to the ED, one is used to take calls from DCFS for potential custody of foster kids, a second is used to take calls from DCFS for the potential custody of GH teenagers, and the third is used for administrative calls from Teen's. The GH administrator is required to be on call 24/7 and, therefore, needs a cell phone. In addition, Teen's has provided the auditors with the applicable authorizations for payment by at least three members of the Agency's management.

**A-C Response (1):** We disagree that expending foster care funds on three separate phone lines for the ED is reasonable and necessary for the safe conduct of her duties. There is no business need for three phones, as one line can fulfill all three functions, while maintaining security and compliance.

In addition, Teen's paid two employees' personal cell phone expenditures in full without distinguishing personal from business calls. Federal regulations prohibit use of foster care funds for personal purposes.

Teen's approval of the use of foster care funds for unreasonable, unnecessary, excessive, and unallowable personal expenses is inappropriate.

**Agency Response (3)**: The auditors have not concluded with irrefutable certainty that the subject costs are, in fact, unallowable according to applicable federal regulation, but have instead opined that such costs are inadequately supported.

**A-C Response (3):** Teen's contract with the County requires Teen's to comply with all applicable regulations, including the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay all disallowed costs. Teen's did not provide documentation that the charges were related to the County foster care program.

**Agency Response (4):** The subject disallowed costs are specifically allowed by applicable federal guidelines. Federal cost principles contained in OMB A-122 states "...Costs incurred for telephone services...are allowable."

**A-C Response (4):** Teen's did not maintain adequate documentation to support that the charges were related to the County foster care program, as required by the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay for all disallowed costs.

**D. $2,987 in inadequately supported credit card charges**

**Finding:** We questioned $2,987 in inadequately supported credit card charges. The charges included $1,082 for a stove that was not at the GH location, and $1,905 in other food and supplies. The Agency provided credit card statements, but no itemized receipts, or the receipts provided were inadequate to substantiate that the expenditures were FFA/GH-related.

**Agency Response (1):** Teen's has provided proof to the auditors that a stove was purchased and installed at the GH. The Agency provided a copy of a receipt for a gas range from Lowe's and a notorized letter dated January 24, 2013, from Teen's Handyman certifying he delivered and installed a stove at the GH (Ehxibit M). Teen's claims to have purchased the stove, and to have exchanged it due to mechanical issues.

**A-C Response (1):** We confirmed the purchase for a stove from Lowe's was credited back to the credit card used, and a separate charge for the same make and model stove was charged to the credit card on the same date. On each occasion, Lowe's charged the credit card for a Fridgidaire stove. However, the stove at the GH was a Whirlpool Gold.

**Agency Response (2):** The auditors have not concluded with irrefutable certainty that the subject costs are, in fact, unallowable according to applicable federal regulation, but have instead opined that such costs are inadequately supported.

**A-C Response (2):** Teen's contract with the County requires Teen's to comply with all applicable regulations, including the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay for all disallowed costs. As a result, we questioned the $2,987 inadequately supported credit card charges. The Agency provided credit card statements, but no itemized receipts, or the receipts provided were inadequate to substantiate that the expenditures were FFA/GH-related.

**Agency Response (3):** The disallowed costs of equipment and supplies are routine expenditures generally incurred by the Agency. Federal cost principles contained in OMB A-122 Attachment B 28., states "... materials, supplies and fabricated parts necessary to carry out a federal award are allowable."

**A-C Response (3):** Teen's did not maintain adequate documentation to support that the charges were related to the County foster care program, as required by the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay for all disallowed costs. In addition, Teen's recognized the Agency has issues maintaining appropriate documentation, and has agreed to update their accounting policies and procedures to ensure all payments to vendors are properly supported before a disbursement is made.

**E. $1,379 in inadequately supported payments to employees.**

**Finding:** We questioned $1,379 in inadequately supported payments to employees, including $139 in mileage payments, $94 in training, $66 for Arrowhead water delivered to the ED, $443 reimbursed to the ED for target gift cards, and $637 in other payments with no documentation showing the payments were FFA/GH-related. (Amounts indicated on Teen's response are incorrect.)

**Agency Response (1):** Teen's believes they provided us adequate proof that costs were incurred in the conduct of business of Teens, and that most of the costs were properly approved for payment and related supporting documentation was provided. They agreed the water delivery to the ED was not a valid expense.

**A-C Response (1):** We reviewed $2,915 in payments and questioned $1,379 (47%) because the documentation Teen's provided did not support that the charges were Program related. For example, we reviewed a $438 mileage payment to an employee, and noted that the employee was paid $139 for miles of travel between home and office, which is unallowable under federal regulations and Teen's mileage policy.

**Agency Response (2):** The auditors have not concluded with irrefutable certainty that the subject costs are, in fact, unallowable according to applicable federal regulation, but have instead opined that such costs are inadequately supported.

**A-C Response (2):** Teen's contract with the County requires Teen's to comply with all applicable regulations, including the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay for all disallowed costs. As a result, we questioned the $1,379 in inadequately supported payments to employees, because the Agency did not provide documentation to substantiate that the payments were FFA/GH-related.

**Agency Response (3):** The subject disallowed costs consist mainly of training for the bookkeeper and mileage reimbursements which are routine expenditures generally incurred by the Agency. Federal cost principles contained in OMB A-122 Attachment B 49 and 51 states that tuition and mileage are allowable.

**A-C Response (3)**: Teen's did not maintain adequate documentation to support that the charges were related to the County foster care program, as required by the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay for all disallowed costs. In addition, Teen's recognized the Agency has issues maintaining appropriate documentation, and has agreed to update their accounting policies and procedures to ensure all payments are properly supported before a disbursement is made.

**F. $288 in clothing disbursements for which the Agency did not have original receipts, or the receipts provided did not match the information in the clothing receipt.**

**Finding:** We questioned $288 in clothing disbursements for which the Agency did not have original receipts, or the receipts provided did not match the information in the clothing log.

**Agency Response (1):** Teen's provided the auditors with proof that the clothing allowances are paid on behalf of a foster child.

**A-C Response (1):** Teen's contract with the County requires Teen's to comply with all applicable regulations, including the A-C Handbook. The A-C Handbook requires original itemized receipts to support disbursements of contract funds. Teen's did not provide adequate documentation to establish that the clothing payments were appropriate. For example, the Agency provided a payment request and a summary of clothing receipts for a specific child, but did not provide receipts to support the disbursement. In addition, the Agency provided receipts from a Wireless store, and the clothing log indicated clothing was purchased. However, the Wireless store did not sell any clothing.

**Agency Response (2):** The auditors have not concluded with irrefutable certainty that the subject costs are, in fact, unallowable according to applicable federal regulation but have instead opined that such costs are inadequately supported.

**A-C Response (2):** Teen's contract with the County requires Teen's to comply with all applicable regulations, including the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay for all disallowed costs. As a result, we questioned the $288 in clothing disbursements because the Agency did not have original receipts, or the receipts provided did not match the information in the clothing log.

**Agency Response (3):** The disallowed costs consist mainly of clothing for foster children, which are routine expenditures generally incurred by the Agency. Federal cost principles contained in OMB A-122 Attachment B 28 states "materials, supplies...necessary to carry out a federal award are allowable."

**A-C Response (3)**: Teen's did not maintain adequate documentation to support that the charges were related to the County foster care program, as required by the A-C Handbook. The A-C Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay for all disallowed costs.

**Teen's Happy Homes' Responses to Recommendations1 through 5.**

**A-C Recommendation 1:** DCFS immediately place Teen's in County's Contractor Alert Reporting Database (CARD), and reevaluate the need to continue doing business with Teen's.

**Agency Response 1:** Teen's disagrees because Teen's believes they complied with all the terms and conditions of its contract with DCFS.

**A-C Recommendation 2:** If DCFS continues to contract with Teen's, DCFS ensure that Teen's management takes action to address the recommendations in this report, and monitor to ensure that the actions result in permanent changes.

**Agency Response 2:** Teen's agrees and will implement some of the recommendations contained in their response.

**A-C Recommendation 3:** DCFS resolve the $107,369 ($27,623 + $79,746) in questioned costs, and collect any disallowed amounts.

**Agency Response 3:** Teen's has responded that all the inadequately supported costs are in fact allowable per federal regulations.

**A-C Recommendation 4:** Teen's management ensure that foster care funds are only used for allowable expenditures.

**Agency Response 4:** Teen's has responded that all inadequately supported costs are in fact allowable per federal regulations.

**A-C Recommendation 5:** Teen's management maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.

**Agency Response 5:** Teen's has responded that all inadequately supported costs are in fact allowable per federal regulations and have been properly supported for the auditors' review.

**A-C Response 1-5:** Teen's did not compy with all the terms and conditions of its contract with the County, as noted in our May 17, 2013 report, and in our responses above. As such, we continue to believe Recommendations 1 through 5 in our May 17, 2013 report are appropriate. We identified $27,623 in unallowable costs, and $79,742 in unsupported/inadequately supported cost that are disallowed by Teen's contract with the County, which include compliance with applicable federal, State, and County regulations.

## III. Allocation of Costs

## IV. Contract Compliance and Internal Controls

## V. Teen's Happy Homes Responses to Allegations Review (Allegedly Substantiated or Partially Substantiated)

**A. Allegation No. 1: The Operations Manager (OM) remained on the payroll after being diagnosed with a serious medical condition.**

**Agency Response to Allegation No. 1:** Teen's Board of Directors (Board) approved an extended medical benefit to allow the employee to continue to work, performing some tasks from home. Teen's does not believe there is anything improper about the authorization of this benefit, which given the nature of the disability, would have been available to any employee of Teen's. Teen's admits that the employee often took time off for treatment, but, for the most part, was present at the Agency performing light tasks that would not further debilitate her.

**A-C Response (Allegation No. 1):** We did not dispute that Teen's Board authorized the OM to work from home. However, it is unlikely the employee would have been able to perform a significant portion of her job responsibilities from home, since her job description requires her to address day-to-day facility operations. For example, the employee was responsible for managing the reception desk, which would require her to supervise staff and approve timesheets, maintain inventory, and acquire supplies.

Employees interviewed state this was handled by another individual prior to September 2009. In addition, staff interviews and other evidence only document work the OM performed after July 2009, and that she was present at the facility beginning in September 2009. We question the employee's overall lack of work product during June 2008 to June 2009, which would have been reasonable based on her duties as OM. Furthermore, the employee's timesheets indicated she generally worked between 9 a.m. and 5 p.m., which is inconsistent with the employee's statements that she was unable to work during normal business hours. The Agency indicated that they were not aware that the OM had to report actual time at work on her timesheet, since she is a salaried employee. As a result, it is evident that the timesheets cannot be relied on.

**B. Allegation No. 2: The Agency paid the $10,000 down payment on the Executive Director's (ED) personal vehicle which is not used for Agency business, and pays the vehicle loan payments and insurance.**

**Agency Response to Allegation No. 2:** Teen's claims this is not a vehicle for the personal use of the ED, but the vehicle used almost exclusively for Teen's business. The $13,845 down payment for the purchase of this vehicle came from funds contributed by the ED, and not from funds provided by DCFS. In addition, further reimbursements to the ED for the use of the subject vehicle are specifically allowed by federal regulations contained in OMB A-122, and by California Labor Code Section 2802(a) and Title 8 of the California Code of Regulations.

**A-C Response (Allegation No. 2):** On several occasions throughout our review, the ED admitted that the vehicle was her personal vehicle. In addition, Teen's independent auditor indicated that the vehicle was not listed as an asset on Teen's financial statements because the vehicle is the ED's personal vehicle, and therefore should not be listed. Teen's was unable to provide documentation to establish that the $13,845 down payment was to repay a loan from the ED. In addition, Teen's did not meet the requirements of OMB A-122, California Labor Code Section 2802(a), and Title 8 of the California Code of Regulations, which requires employers to keep daily mileage records to establish business use of the ED's personal vehicle, since the cost of personal use of a vehicle is not allowed.

**C. Allegation No. 4: The disbursement approval process was circumvented by the ED and the President of the Agency's Board.**

**Agency Response to Allegation No. 4:** Teen's objects to the word "circumvention" because they believe it contains an element of deceit. Teen's claims to have limited financial resources, and does not have the resources or willingness to mismanage foster care funds in violation of laws or regulations. Teen's agrees that sometimes all the required signatures were not reflected on disbursement approval forms, but claims these are clerical errors, and were not willingly perpetrated by management or Board members.

**A-C Response (Allegation No. 4):** We noted, and Teen's agrees that the required approval signatures were not always reflected on its disbursement forms. Processing payments without required approvals is a circumvention of the disbursement approval process.

**D. Allegation No. 7: The ED uses an Agency MasterCard and does not have receipts to support purchases made with this card.**

**Agency Response to Allegation No. 7:** Teen's does not maintain Agency credit cards assigned to employees. $3,766 of the $6,753 in questioned credit card expenditures were for travel costs. The ED promptly reimbursed Teen's $1,300, and the Mentorship Program subsequently reimbursed the Agency $1,302. The rest are not yet reconciled but mostly pertain to travel for seminars.

The remaining $2,987 of the $6,753 was $1,082 for a stove, and $1,905 for food and supplies. The auditors have been presented with evidence showing that during 2009 a new stove was installed at the GH. In addition to the above, food and supplies were purchased for both the GH and administrative office, and such charges are clearly reflected in the credit card receipts presented to the auditors. The original receipts have unfortunately not been located for review by the auditors.

Teen's claims they have provided us with a multitude of records and receipts throughout the review, including the above two transactions that Teen's believes have been adequately substantiated. Teen's therefore feels that we should not conclude that there is a total absence of accountability on the part of the ED for the use of her credit card.

**A-C Response (Allegation 7):** We verified the ED used her personal funds to reimburse the Agency $1,300 of the $3,766 in personal and other non-Program related travel expenditures made by the ED. In addition, as a result of our review, the Agency reimbursed the FFA Program $1,302 for the non-Program related travel expenditures. However, Teen's did not provide documentation to substantiate the source of the funds used to reimburse the Program. Also, since documentation was not provided to support that the remaining $1,164 was Program-related travel, we disallowed the amount.

We reviewed supporting documentation that a Fridgidaire stove was purchased from Lowe's. However, the stove at the GH was a Whirlpool Gold. Teen's contract with the County requires Teen's to comply with all applicable regulations, including the A-C Handbook. The Handbook states that unsupported/inadequately supported disbursements will be disallowed on audit, and that the contractor will be required to repay for all disallowed costs. As a result, we questioned the $2,987 in inadequately supported credit card charges. The Agency provided credit card statements, but no itemized receipts, or the receipts provided were inadequate to substantiate that the expenditures were FFA/GH-related.

**E. Allegation No. 8: The Agency's Board approved an $18,000 salary raise for the ED. The Agency employees were then put on unpaid leave and then implemented furloughs.**

**Agency Response to Allegation No. 8:** Teens Board determined that the ED was entitled to a pay raise, and the auditors also concluded that the raise was reasonable.

**A-C Response (Allegation No. 8):** We noted, and Teen's agreed that the ED received a Board of Directors' approved salary increase that was not in excess of the Child Welfare League of America Salary Study limit.

**F. Allegation No. 9: The Agency paid the ED's former foster child for maintenance services while he was out of State.**

**Agency Response to Allegation No. 9:** Teen's paid the former foster child for janitorial services while he was attending college in a different State. Teen's claimed the former foster child worked at Teens in 2009 during school breaks. The Agency did not maintain adequate control of $2,700 in related billings, and determined that the child was overpaid for half of the payments. The Agency claims that Teen's was reimbursed $1,200 by the ED, and believes the rest was rightfully earned by the former foster child for janitorial services provided.

**A-C Response (Allegation No. 9):** We confirmed that the Agency paid the ED's former foster child a total of $2,700 from January to September 2009 for janitorial/maintenance services at the FFA. Teen's provided photocopies, not original invoices as required by the County contract, to support $1,500 in payments made to the foster child, and indicated that they overpaid the foster child $1,200. However, the photocopied invoice received for August 2009 was inconsistent with the invoice we reviewed for the same month during our initial investigation. In addition, the Agency paid the former foster child for the full month of January and August, even though winter and summer breaks ended on January 14 and August 19, 2009, respectively.

In December 2012, Teen's ED purchased a $1,200 cashier's check, with funds she indicated were recovered from the former foster child for the overpayment. We verified that the cashier's check was deposited into the Agency's bank account. However, we were unable to verify the source of the funds.

**G. Allegation No.14: Teen's misuses and mismanages taxpayer funds allotted to foster children and families.**

**Agency Response to Allegation No. 14:** Teen's requested that we refer to other responses and evidence contained within their response. Teen's believes the Agency has complied with all laws and regulations pertaining to the use and disposition of governmental funding and there is no truth to this allegation.

**A-C Response (Allegation No. 14):** As indicated in our May 17, 2013 report and above, our review noted some questioned costs. However, Teen's complied with the State's minimum requirement for payments to foster families, and the County's program monitoring reports did not identify material instances of non-compliance with Program requirements that might be the result of the misuse or mismanagement of contract funds.